

Conservation Endowments:

A Mechanism for Providing Long-term Conservation Management Funding in Hawaii

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Summary

Meaningful conservation of native species in Hawaii, including those Federally listed as threatened or endangered, requires on-going management. The purchase of lands for conservation to protect them from development will not protect them from the greater threat of invasive species. After initial control, periodic invasive species management is necessary and requires ongoing funding. A site-specific conservation endowment could generate annual income in perpetuity sufficient to provide for some or all of the management actions needed to care for the natural resources of a particular parcel over the long term. Suggestions are given regarding mechanisms that currently exist to establish conservation endowments.

Introduction

Due to Hawaii's isolation from continental land masses, endemic Hawaiian species evolved in the absence of many of the taxa normally occurring in continental ecosystems. Invasive, non-native species, brought to Hawaii by human activity, often prey upon or out-compete native species. The result is that many native Hawaiian species have become endangered and most native habitat is altered to some extent. Some habitats have been modified so substantially that large tracts scarcely resemble their original condition. Over 50 percent of Hawaii's terrestrial acreage has been altered to the extent of no longer being dominated by native species (Pratt and Gon, 1998). For some natural community types, the loss is much greater. Native dryland ecosystems, for example, have been reduced by over 90 percent (Pratt and Gon, 1998). Habitat alteration has been due to human land use activities such as agriculture and development as well as by invasion by non-native species. The threat to Hawaii's conservation lands by invasive species is ongoing and will require that lands be managed in perpetuity.

The purchase of lands for conservation and setting them aside from development will not, in itself, achieve the needed level of conservation. Conservation actions to keep invasive species from permanently altering important native ecosystems and extirpating listed species will continue to be needed on a recurring basis into the future.

A number of areas in Hawaii have been dedicated to the long term conservation of native species and ecosystems. These include areas managed by local, State, and Federal governments as well as non-profit groups and private landowners. In addition, multi-landowner cooperative efforts, known as watershed partnerships, have been formed on all of the main Hawaiian Islands. For the most part, the management of

conservation areas in Hawaii relies on State and Federal funding, varying from year to year depending on budget levels. This unpredictable provision of funding does not ensure success and makes implementation of long-term plans difficult. A very small number of conservation endowments exist in Hawaii although there are many conservation areas that would benefit from the establishment of conservation endowments.

Conservation Endowments

An endowment is a financial instrument that uses invested funds (the principal) to create a source of income. Although there are different types of endowments, they are generally thought of as permanently invested resources that generate funds on a continuing basis, to support an organization or cause. Organizations such as National Public Radio, the Smithsonian Institute, the Metropolitan Opera, and the Hawaii Nature Center have established endowments to further their missions. Many universities establish endowed chairs to help recruit, recognize, and support accomplished faculty members.

The general idea of an endowment as a means of providing long-term support for conservation is not a new one (Smith 1999, chap. 2). One of the first such endowments or conservation trust funds, was the Bhutan Trust Fund, established in 1992 by the Royal Government of Bhutan, United Nations Development Program, and World Wildlife Fund. Conservation endowments have been set up in numerous areas around the world and have been the subject of multi-national conferences on conservation financing (http://www.conservationfinance.org/Calendar_links_pages/Calendar.htm).

Some environmental funds address specific issues or specific locations; others are administered over a broad geographic and subject range (Spergel 1998). A number of environmental funds have been set up in developing countries as a means of providing a stable source of funding in an otherwise unstable economic environment. The means of administering endowment funds varies greatly. In many cases, an administering body, such as a board of directors, reviews proposals and makes grants to applicants in order to achieve the goals and objectives of the conservation endowment.

Site specific conservation endowments are currently employed by a number of nonprofit organizations, large and small. In some cases the endowment is for the benefit of one site in particular, and in other cases the endowment benefits a collection of properties managed by the same organization. Examples include the Center for Natural Lands Management (<http://www.cnlm.org/>), The Nature Conservancy (<http://nature.org/>), and the San Elijo Lagoon Conservancy (<http://www.sanelijo.org/index.htm>). A small number of site-specific conservation endowments have been established in Hawaii. These include those established by the Maui Coastal Land Trust (<http://www.mauicoastallandtrust.org/index.html>), The Nature Conservancy, and Kaelepulu Wetland (<http://kaelepulupond.com/>).

This paper recommends that land managers in Hawaii give serious consideration to the use of site-specific conservation endowments as a mechanism to generate annual income sufficient to provide, in perpetuity, for management actions needed to care for important natural areas. Endowments could be set up to benefit land under single ownership or land owned by many different owners such as those of a watershed partnership.

Some basic considerations for setting up a conservation endowment are:

1. Determination of land management funding and endowment principal needs.
 - a. Estimation of costs (one-time and periodic) to manage the natural resources of the site. Presumably, this would be part of a site-specific master planning process.
 - b. Calculation of the amount of endowment principal necessary to generate needed management funds.
2. Establishment of the endowment.
 - a. Formation or selection of a nonprofit organization to receive management funds generated by the endowment.
 - b. Establishment of an endowment with the following attributes:
 - Invested principal is professionally managed.
 - Income generated by the principal is provided exclusively to a designated nonprofit entity for the management of a particular natural area.
 - The distribution of funds from the conservation endowment is automatic, keeping administrative costs low.
 - A written spending policy outlines a course of action for periods when investment return is significantly above or below expected return.
 - A written contingency plan outlines steps to be taken if either the nonprofit or the endowment manager go out of business.
3. Accumulation of conservation endowment principal.
 - a. Private Donations
 - b. Foundation Grants
 - c. Corporate Donations
 - d. Sustainable Use Revenue Generation
 - e. Sale of a Conservation Easement
 - f. Permits
 - g. Fines or Mitigation
 - h. Government Grants
4. Land Management using funds generated by the endowment.
 - a. Management Plans/Activity Prioritization
 - b. Scaling Land Management Activity to Endowment Income

Estimation of Costs and Calculation of Principal

The initial tasks are to estimate the anticipated level of funding needed to carry out the conservation actions and then to calculate the amount of principal necessary to generate those funds annually.

A significant amount of time should be invested in planning the actions needed for management of a natural area in perpetuity. Depending on the condition of the area in question, a range of management actions could be called for in order to adequately restore and manage a natural area in Hawaii. These actions could potentially include land acquisition, fence construction (to keep out feral pigs, goats, deer, sheep and other

feral ungulates), removal of invasive species (weeds, mammalian predators, invertebrates, ungulates), restoration of the ecosystem's structural elements (common native trees such as koa and ohia), and the propagation and reintroduction of rare or listed species. Ongoing activities could include fence maintenance, invasive species control, wildfire management, and ecological monitoring. Accurately estimating costs for all management actions will obviously be a critical component of this planning effort. Contacting experienced professionals specializing in the various fields of expertise would be the best way to get accurate and current estimates. It is recognized that even the most detailed management plan and budget might in time, prove to be inadequate. Mechanisms for monitoring progress and making changes in the management actions where appropriate should be incorporated from the start.

The planning process should be comprehensive, and take into account all administrative and other costs necessary to support the management actions. These indirect costs could include things such as staff salaries and benefits, facilities maintenance, office equipment and supplies, tools and other field supplies, vehicle leases, legal and accounting fees, travel costs, insurance, public relations, trail maintenance, trash removal, environmental education, signage, and visitor services.

Using the anticipated costs for implementing the land management actions, one can calculate the amount of endowment principal needed. Inflation, often estimated at three to four percent annually, and endowment management costs will reduce the amount of usable income significantly. Accounting for inflation, occasional years of poor return, and endowment management costs in this calculation is an absolute necessity.

There are a number of software programs that can be used for estimating costs and needed endowment principal. The Center for Natural Lands Management (<http://www.cnlm.org/>) has developed a software tool called the Property Analysis Record that takes into account all potential expenditures that will be required in the management of a parcel, calculates annual operating expenses and other costs, and then calculates the amount of principal needed to generate the needed level of operating funds.

Alternatively, a two step analysis could be done using project planning software to outline needed management actions and costs, and then using an endowment calculator to determine the amount of principal needed. One endowment calculator available on the internet was produced by the Ford Foundation as part of the Grantcraft project (<http://www.grantcraft.org/>). Although these programs are not specifically designed for conservation projects, they should be applicable.

Conservation Endowment Establishment

As with the calculation of costs and principal, careful consideration should be given to how an endowment will be managed. A spending policy will outline contingencies for periods of time when investment return is significantly above or below anticipated levels (Adams, 2005). For example, when investment return is low, will some of the principal be used to cover expenses? Likewise, if return is high, will the surplus be reinvested in the endowment? Will a multi-year average be used to determine how much of the investment income should be spent?

There are a number of options, both local and national, for the management of a conservation endowment. Management fees vary with the amount of administration required by the fund.

Community foundations around the country, including the Hawaii Community Foundation (<http://www.hawaiicomunityfoundation.org/>) provide financial management for funds of all sizes and types. A site-specific conservation endowment could be established as a fund managed by a community foundation.

Donor-advised funds are offered by nonprofit arms of financial service companies to provide clients with a means of making immediate tax-deductible donations that can then be disbursed over time via grant recommendations. Some donor-advised funds are available to nonprofit organizations as well as individuals. The National Philanthropic Trust (<http://www.nptrust.org/>) is one organization that helps to facilitate such accounts.

The Center for Natural Lands Management (<http://www.cnlm.org/>) is an organization that manages trust funds for conservation in addition to providing endowment planning services and conducting actual habitat management.

Commonfund (<http://www.commonfund.org/Commonfund/>), while not focused exclusively on conservation projects, is a nonprofit manager of endowments for nonprofits, universities, hospitals, and others. The concept of a nationwide conservation endowment has not yet come to fruition, but the idea is a sort of mutual fund for conservation endowments that would pool investments in order to reduce endowment management costs, increase investment return, and provide greater security for the endowment principal. Additionally, it would make it easier for an organization to establish an endowment and would relieve the organization of day-to-day endowment management responsibilities. Commonfund appears to offer many of the advantages a nationwide conservation endowment would.

Part of establishing a conservation endowment is the designation of a nonprofit entity to receive the generated funds. This entity needs to have the capability to carry out the land management actions spelled out in the management plan, account for funds received and spent, and make timely decisions on issues that may arise regarding the endowment or the conservation management. A contingency plan should be developed to deal with the possibility of either the nonprofit entity or the endowment management entity going out of business. In order to ensure continuous provision of management funds, this contingency plan should be in writing with clear steps outlining the transfer of responsibilities.

Generation of Conservation Endowment Principal

The greatest challenge in establishing a conservation endowment will surely be the acquisition of funds to serve as the endowment principal. These are the funds that will remain permanently in the endowment, generating interest to be used for natural resources management. Although raising the total principal necessary is a daunting challenge, it need not be done all at once. With the goal of developing a source of funding to last in perpetuity, it is reasonable that the buildup of principal will take a significant amount of time. Principal for a conservation endowment could potentially come from the following sources and using a variety of fund sources will likely be necessary.

Private Donations: Funds could be raised from private donors, specifically for the establishment of a conservation endowment to benefit a particular area. The idea is that private donors might be more willing to contribute to the perpetual management of areas they know and care about. The site-specific nature of the proposed endowments could capitalize on the personal connections that people have to certain natural areas. For example, people might be more willing to contribute to the conservation of the forest they enjoy hiking through, or the beach they visited on vacation rather than a less specific conservation goal.

Private donations could be facilitated through a targeted capital campaign, with a strong outreach component or through a more passive, internet-based mechanism that allows donors to contribute via credit card. Donations could be cash, stocks, bonds real estate, personal property, or other form. These could be made outright, or as part of a will or other estate planning instrument.

Foundation Grants: Data compiled by The Foundation Center (<http://fdncenter.org/>) indicates that in 2002, charitable foundations provided a total of \$598,646,000 for endowments, accounting for 3.8% of the financial support awarded by foundations that year. In addition to endowment grants, charitable foundations make endowment-like grants that are limited term, investable assets, and endowment-related grants that help grantees plan for the establishment of an endowment (Ford Foundation 2001).

Corporate Donations: Either through a company-sponsored foundation or directly by the corporation.

Sustainable Use Revenue: Ecotourism or other sustainable, ecologically friendly uses of an area could potentially provide funds for a conservation endowment. The revenue-generating activity would have to be compatible with the conservation goals of the landowner. A variation on this theme for development communities could be incorporated into the purchase of a new home or as part of the Covenants, Conditions, and Restrictions (CCRs). Payment into an endowment to maintain the neighboring natural area could be ongoing as part of community association fees or only at the time of purchase when fee title is transferred from one party to another. This natural area might be owned in common by the members of the community or by the original landowner.

Sale of a Conservation Easement: A landowner seeking to provide permanent protection to his/her land could sell a conservation easement to a third party and then invest the proceeds of that sale in a conservation endowment. Properties with high natural resource value and under a conservation easement may qualify for the State of Hawaii Natural Area Partnership Program that provides long-term matching funds for conservation management. There could also be reduced property and estate taxes associated with a conservation easement and/or endowment contribution. While opportunities for this type of scenario will probably be infrequent, creative approaches to building a conservation endowment need to be explored.

Permits: As a condition of certain permits or in the development of conservation plans, applicants may set up conservation endowments to fund management actions aimed at offsetting the negative impacts allowed by the permit. Examples of these include Army Corps of Engineers Clean Water Act permits and U.S. Fish and Wildlife Service Endangered Species Act permits (Habitat Conservation Plans, Safe Harbor Agreements,

Candidate Conservation Agreements with Assurances). An example of this in Hawaii is the Kaelepulu Wetland (<http://kaelepulupond.com/>). One of the conditions of an Army Corps of Engineers permit was the establishment of an endowment for the conservation of this site.

Fines or Mitigation: Illegal actions that result in fines or mitigation requirements could produce funds for a conservation endowment. For example, the Department of the Interior's Natural Resources Damage Assessment and Restoration Program has as its goal the restoration of natural resources injured as the result of oil spills or hazardous substance releases. The program assesses the damages and injuries to natural resources entrusted to the Department and negotiates legal settlements or takes other legal actions against the responsible parties for the spill or release. Funds from these settlements are then used to restore the injured resources and can be put into a conservation endowment. For example, if an oil spill affects seabirds, the responsible party might be required to pay a penalty that would be used to benefit seabirds, perhaps on their nesting grounds rather than at sea.

Government Grants: For the most part, grants from the Federal government are prohibited from accumulating interest for the benefit of the grantee. However, it is possible for Congress to grant approval for the use of appropriated funds for endowments as it did for the U.S. Agency for International Development in the 1990s.

Given the potential restrictions and difficulty in generating endowment funds, we believe that one way to capitalize on funding sources that are currently prohibited from funding endowments, is to have these sources fund other management needs, freeing up unrestricted funds that could go into an endowment. In such a scenario, the various contributions could be specified as part of a comprehensive partnership agreement for the conservation of a specific area.

Land Management Using Endowment-Generated Funds

Along with the development of a comprehensive list of the activities associated with management of the natural area, some thought should be given to prioritization of these activities. The strategy developed for spending endowment-generated funds will have many considerations. One of these should be funding the activities most essential to the mission of the project or that are capable of obtaining additional financial resources. For example, a landowner or watershed partnership might choose to use endowment-generated funds to employ a coordinator who could then write grant applications for additional funds as well as oversee land management activities. Tracking the actual financial performance of a conservation endowment and comparing this with what was anticipated should help align land management activities with funding available. In any case, a well thought out conservation management strategy for each property or group of properties should be prepared and implemented to ensure success. These plans should include the goals and objectives as well as an adaptive management strategy describing how the plan will be implemented on an annual basis to take into consideration changing financial and environmental conditions.

Conclusion

Conservation endowments have the potential to provide for long term funding for the perpetual management needs of natural areas in Hawaii. Careful preparation should be

done to ensure that 1) the natural resources management plan developed for the area is realistic and comprehensive; 2) costs associated with the management plan are estimated as accurately as possible; 3) the endowment is thoroughly planned, taking into account things such as inflation, occasional years of poor return, and endowment management costs; 4) a viable nonprofit organization is in place to conduct the land management and account for the expenditure of endowment-generated funds. Without the development of conservation endowments, most areas being managed for natural resources in Hawaii will continue to rely on year-to-year government funding. By providing a more predictable stream of operational funds, conservation endowments will allow natural area managers to plan and implement the long range conservation of Hawaii's important natural areas.

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Resources

The Biodiversity Economics Library
<http://www.biodiversityeconomics.org/index.html>

Center for Natural Lands Management
<http://www.cnlm.org/>

Conservation Finance Alliance
<http://www.conservationfinance.org/>

The IPG Handbook on Environmental Funds
http://www.conservationfinance.org/Documents/CF_related_papers/IPG_Handbook_English.pdf

IUCN World Parks Congress - Building a Secure Financial Future: Finance and Resources
http://www.conservationfinance.org/WPC/WPC_documents/WPC_Sustainable_Finance_v8.pdf

Focus on Conservation Finance: A Newsletter of the Conservation Finance Alliance
http://www.conservationfinance.org/Relevant_links/Newsletter.htm

Conservation Finance Guide
<http://guide.conservationfinance.org/>

Business Planning for Protected Areas
<http://guide.conservationfinance.org/chapter/index.cfm?Page=2>

Ford Foundation - A Primer for Endowment Grantmakers
<http://www.fordfound.org/elibrary/documents/5016/toc.cfm>

The Foundation Center
<http://fdncenter.org/>

Global Philanthropy & Foundation Building: The Synergos Institute
<http://www.synergos.org/globalphilanthropy/>

Grantcraft
<http://www.grantcraft.org/>

Land Trust Alliance
<http://www.lta.org/index.shtml>

Pacific Islands Land Institute
<http://www.pilipacific.org/index.html>

The National Philanthropic Trust
[\(http://www.nptrust.org/](http://www.nptrust.org/)

World Wildlife Fund
<http://www.worldwildlife.org/conservationfinance/trustfunds.cfm>

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<http://www.usaid.gov/policy/ads/200/pd21.pdf>